

## Message Text

SECRET

PAGE 01 LISBON 01454 231908Z  
ACTION EUR-12

INFO OCT-01 ISO-00 EURE-00 TRSE-00 SSO-00 NSCE-00 SS-15  
NSC-05 SP-02 EB-08 INR-07 INRE-00 /050 W  
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O R 231827Z FEB 77  
FM AMEMBASSY LISBON  
TO SECSTATE WASHDC IMMEDIATE 0277  
INFO AMEMBASSY BONN  
AMEMBASSY LONDON

S E C R E T LISBON 1454

DEPT. PASS TREASURY FOR SYVRUD

E.O. 11652: GDS  
TAGS: EFIN, EAID, PO  
SUBJ: FINANCIAL ASSISTANCE TO PORTUGAL

REF: (A) LONDON 2808, (B) BONN 3231

1. ECONOMIC COUNSELOR AND I MET FEBRUARY 23 WITH PRIME MINISTER SOARES AND FINANCE MINISTER MEDINA CARREIRA. PRIME MINISTER WAS CLEARLY UPSET BY NEWS THAT CONGRESSIONAL SUBMISSION FOR PROPOSED CONSORTIUM LOAN HAD BEEN CHANGED FROM A 1977 SUPPLEMENTAL TO THE 1978 BUDGET. NEWS REPORTS HAD INDICATED THAT THIS CHANGE IMPLIED A ONE YEAR DELAY IN CONCLUSION OF THE LOAN. SOARES HAD DIFFICULTY BELIEVING THAT SHIFT WAS MERELY A TACTICAL MANEUVER. INDEED, HE FEARED THAT THIS CHANGE SIGNALLED A BASIC USG POLICY SHIFT AWAY FROM SUPPORT FOR HIS GOVERNMENT. HE WAS PARTICULARLY DISTURBED BY REPORT THAT HE HAD NOT STRESSED TO PRIME MINISTER CALLAGHAN URGENCY GOP ATTRIBUTES TO CONSORTIUM LOAN. SOARES INSISTS THAT HE STRESSED NEED FOR LOAN, BOTH DURING PRIVATE DISCUSSION WITH CALLAGHAN AND DURING MEETING BETWEEN BRITISH AND PORTUGUESE DELEGATIONS. IN FACT, SOARES CLAIMS TO HAVE BEEN GREATLY SURPRISED

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BY CALLAGHAN STATEMENTS THAT DECISION HAD ALREADY BEEN TAKEN TO SHIFT FROM SUPPLEMENTAL 1977 TO THE 1978 BUDGET, AND BY NEWS THAT VICE PRESIDENT MONDALE HAD NOT BROACHED SUBJECT WITH PRIME MINISTER CALLAGHAN. SOARES CONCURRED THAT GOP APPROACH TO GERMAN EMBASSY (BONN 3231) HAD BEEN MISHANDLED. HE PLANS TO CALL IN GERMAN AMBASSADOR AGAIN. MOREOVER, HE WILL CALL SCHMIDT DIRECTLY TO

REQUEST GERMAN PARTICIPATION IN THE CONSORTIUM. SINCE HE AND SCHMIDT SPEAK NO COMMON LANGUAGE, HE FEARS THAT HIS TELEPHONE CONVERSATION WILL NOT CONVEY FULL SENSE OF HIS URGENCY. HE PLANS, THEREFORE, TO SEND PERSONAL EMISSARY TO GERMANY TO MEET WITH SCHMIDT.

2. SOARES EXPRESSED CONSIDERABLE CONCERN ABOUT THE ENTIRE APPROACH TO POTENTIAL CONSORTIUM PARTICIPANTS. HE PREFERS TO LIMIT APPROACHES TO COUNTRIES MOST LIKELY TO JOIN, RATHER THAN BROACHING SUBJECT WITH LARGE NUMBER OF NATIONS. LATTER PROCESS, HE FEELS, WOULD SERIOUSLY COMPLICATE AND DELAY CONSORTIUM NEGOTIATIONS. HE URGED, THEREFORE, THAT WE AGREE AS SOON AS POSSIBLE ON A RESTRICTED LIST OF MOST LIKELY PARTICIPANTS AND THEIR POSSIBLE SHARES IN THE LOAN.

3. SOARES AGAIN STATED THAT HE IS ALMOST READY TO ANNOUNCE COMPREHENSIVE ECONOMIC REFORM PROGRAM. HE MUST CONCLUDE FINAL CONSULTATIONS WITH THE PRESIDENT AND WITH SEVERAL MINISTERS IN HIS CABINET, BUT HE HOPES TO MAKE THE ANNOUNCEMENT ON FRIDAY, FEBRUARY 25. HE PROMISED TO GIVE ME, BEFORE MY DEPARTURE FOR WASHINGTON, DRAFT LIST OF MEASURES EXPECTED TO BE ANNOUNCED. HE CAUTIONED, HOWEVER, THAT THE LIST BE HELD CONFIDENTIAL.

4. COMMENT: PRIME MINISTER EVIDENTLY WAS CLEARLY UPSET AND NERVOUS ABOUT PROGRESS BEING MADE TOWARD CONCLUDING CONSORTIUM LOAN, PARTICULARLY THE CHANGE IN OUR BUDGET SUBMISSION. INSUFFICIENT CONSULTATION WITH GOP,

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AND EARLIER US REQUEST THAT GOP NOT DISCUSS CONSORTIUM WITH OTHER POTENTIAL PARTICIPANTS, HAD LED HIM TO BELIEVE THAT USG WAS TAKING COMPLETE LEAD IN ORGANIZING THE LOAN. WE STRESSED THAT PROGRAM MUST BE A JOINT U.S./ PORTUGUESE EFFORT. SOARES NOW UNDERSTANDS THIS AND IS WILLING TO PARTICIPATE ACTIVELY IN ORGANIZING CONSORTIUM. IT IS THAT MUCH MORE ESSENTIAL, THEREFORE, THAT WE COORDINATE CLOSELY WITH HIM.  
CARLUCCI

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## Message Attributes

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**Review Markings:**  
Margaret P. Grafeld  
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